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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Nov. 28, 1980

Rates moved disparately this week, as the Federal funds rate continued to ratchet upward over the period, while other rates were about unchanged on balance or actually somewhat lower. This was especially true of the Treasury coupon sector, where the recently auctioned long bond now is quoted at a substantial premium.

The performance was rather remarkable in a week containing three Treasury auctions followed by the Thanksgiving holiday. The key to this behavior is the widespread and growing conviction among market participants that rates currently are at or close to their peak levels. To some extent this conviction reflects perception of increased sluggishness in the economy. And in the case of Treasury securities, expectations of imminent Fed purchases in the market for seasonal reserve-adding purposes may play a role. Also, the response may in part reflect an increase in the credibility of the Federal Reserve's long-run policy to contain inflation by slowing the pace of monetary expansion. Certainly any reluctance on the part of the Fed to allow rates to rise quickly to levels necessary to pare back the excessive rate of money growth would surely have devastated that credibility. With M-1B currently about $10 billion above the top of its 1980 target range, it is clear that policy must remain restrictive for some time to come, and this week at least some market participants seemed willing to look beyond the unpleasant near-term consequences to the future benefits.

That was just as well, since the high and rising thrust of the funds rate could give no comfort. There is little doubt that the Fed has experienced operating difficulties in estimating and covering normal bank reserve needs--the recent pattern of almost daily RPs makes that clear. As we noted last week, such an event would contribute to a firm Fed funds rate. In addition, however, the Fed's administration of the discount window is evidently making many banks far more reluctant to tap the Fed for advances than they were prior to the recent hike in the discount rate. Such reluctance makes them bid more aggressively for funds before attempting to borrow from the Fed, thus tending to enlarge the spread of the funds rate over the discount rate (including the 2% surcharge). Hence, for whatever reason, Fed policy appears to be much more restrictive than the probable nonborrowed reserves path would suggest.

While we continue to anticipate a decline in the funds rate in the near future, we expect that the decline will be relatively limited, perhaps pulling the rate down to the 16% area. Further declines below that general level must wait for a significant slowing in the pace of money growth.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	11/28/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors with highest credit rating	17.75%	17.00%	15.50%
Effective since	11/26/80		
Discount Rate at Federal Reserve Bank	12.00	12.00	12.00
Federal Funds	18.50	18.00	12.46
Repurchase Agreements	16.00	16.00	11.50
U.S. Treasury Issues			
Bills			
3 months	14.85	14.89	11.89
6 months	15.25	15.19	12.26
1 year	14.85	14.51	11.91
Coupons			
2 years	13.97	13.74	11.34
4 years	13.24	13.21	10.50
7 years	12.85	12.82	10.45
10 years	12.62	12.75	10.36
Long Bond	12.24	12.35	10.08
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.15	16.10	12.90
3 months	17.10	16.35	13.10
6 months	16.25	16.00	13.25
1 year	14.25	14.25	12.40
Banker's Acceptances			
1 month	17.10	16.00	12.90
3 months	16.90	15.80	13.25
6 months	15.35	15.00	13.30
Eurodollar Deposits			
1 month	18.25	17.00	13.63
2 months	18.13	17.00	14.13
3 months	18.00	17.00	14.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	15.00	14.75	10.13
1 month	15.00	14.75	12.00
3 months	14.25	14.00	11.75
Bank Holding Companies			
1 month	16.63	15.40	11.75
Dealer Placed:			
3 months	NA	16.13	12.50
New AA Corporate Utility Bond	14.38	14.38	11.75
Tax Exempt			
6 month Project Notes	8.25	8.05	6.15
1 year AAA Bond	7.00	7.00	NA
5 year AAA Bond	7.40	7.00	NA
20 year AAA Bond	9.00	8.90	6.60

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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